Seattle
Office of Housing

Memo

Deliberative Draft

Date: January 5, 2024

To: Office of Housing – Senior Leadership Team

From: Laurie Olson, Capital Investments Director
Rosey Zhou, Rental Housing Program Manager

Subject: ACLT/Shelter Resources – Keiro/Benu Community House

Africatown Community Land Trust (ACLT) in partnership with Shelter Resources (SRI) is requesting $32,076,717 from the Office of Housing for their proposed development of Keiro/Benu Community House, 173-unit project. After reviewing the Keiro/Benu NOFA application, OH recommends not funding this project for the following reasons:

- Project Readiness. The project design is currently not in compliance with the site's zoning. It will require a Director's Rule and multiple departures. They are in the very early stages of design and have not begun negotiations with SDCI. The project will not be under construction by March 2025.
- Leverage and Financial Feasibility. The applicant chose not to pursue additional funding sources like FHLB grant or Amazon Housing Equity Fund or Evergreen Impact Fund, this has led to ACLT/SRI asking OH to cover 33% of the total residential costs, $32.1M, which is more than the amount announced available in the NOFA. The operating budget may be understated, which will necessitate the need for more capital funding at conversion to permanent funding.
- Organizational Capacity. The development consultant, Muammar Hermanstyne, currently has five applications in the Office of Housing for funding this NOFA round. Without an MOU, it is unclear what the development consultant is responsible for and if he'd have the capacity to balance all of these projects plus projects that are currently under construction. Furthermore, ACLT has demonstrated challenges with meeting their construction lender's expectations for development budget accounting.
- Cost-Effectiveness. The hard costs in the development budget are overstated by $17.5M and no third-party cost estimate was provided. The project's construction costs are currently 22% greater than the average cost of construction.

The following is a detailed documentation of our analysis of the application for NOFA priorities and competitive criteria.

Project Description:
Benu Community Housing is ACLT and SRI's proposed new development project which includes the demolition of the current Keiro nursing home facility that was acquired in 2021 using funds from WSHFC Lap Loan and OH Bridge Loan. Following the purchase of the property, ACLT converted the Keiro Center into an interim homeless shelter for up to 125 families. The proposed development of a 173-unit mixed-use building. The project will be located near Langston Hughes Performing Arts, a historic landmark in the Seattle Area. The first-floor space (10,570 SF) of the building is dedicated to early childhood learning and activities for the residents and community at large. The common area will include the manager's office, mail room, lobby, resident lounge, storage rooms, and a bike storage room. The upper six floors of each

building will have identical floor layouts for design and construction efficiency, with units on each floor above the commercial spaces and units on the ground floor along with an entry lobby, trash room, mechanical room, bike storage and other "back-of-house" functions.

Proposed Unit Mix and Affordability

	City-funded Units								
Affordable at	30%	40%	50%	60%	Mgr	60%	80%	>80%	Total
Studio			7	3					10
1 Bedroom			55	23					78
2 Bedroom			36	16					52
3 Bedroom			23	10					33
Total			121	52					173

Analysis of Competitive Criteria

Project Plan: Current project's proposed design is not entirely compatible with the current zoning regulations. The site is located in the NC1-55(M) zoning district, and there are notable grade differences on the site. To address this, the project is planning to use the "SDCI Directors Rule" to zoning average grade plane Location, which will take time and extensive coordination with SDCI.

Organizational Capacity: ACLT as an organization is fairly new and has yet to produce an audited financial statement. They also were unable to produce three years of tax returns, which would identify the organization's means of income and ensure that ACLT's non-profit status is not in jeopardy. Moreover, while there are full-time employees at ACLT, their development staff is remote, and duties are primarily performed by a development consultant. ACLT does not have enough direct experience developing , owning, and managing affordable housing and thus ACLT has chosen to partner with SRI an experienced for-profit developer, who can provide the financial backing and development support that ACLT is lacking. However, ACLT and SRI currently do not have an MOU and could not fully articulate the roles and responsibilities of each party beyond their developer fee split. In addition, Keiro was not expressed to be the priority project of both parties.

Sponsor Financials

No sponsor financials to report on for ACLT. Additionally, as a for-profit entity, SRI did not submit audited financial statements in the form OH's non-profit borrowers submit. Instead, OH staff reviewed organizational and personal financial statements of the guarantors and were able to ask questions. OH staff have concluded the applicant, SRI, has the financial capacity to undertake the project.

Race and Social Justice Initiative (RSJI): ACLT established itself as a voice for equitable development in the City of Seattle, and that is supported by their mission and vision for inclusive development. The work of ACLT is directed towards supporting the Black community of Seattle through affordable housing as well as economic development and empowerment.

Performance of Existing Properties:
ACLT has one building in the OH portfolio, Liberty Bank, but they are the minor owner and do not provide property management nor are they responsible for compliance with OH regulatory agreement. Additionally, while many projects are experiencing increased project costs, ACLT is finding it challenging to navigate the demands of their financial partners on their Africatown Plaza project, putting the project completion in jeopardy.

Cost-Effectiveness: No third-party cost estimate with a schedule of values provided after being requested multiple times. Only a ROM (Rough Order of Magnitude was provided, which is currently priced at 22% above the market average for construction costs. The developer noted that the hard costs in the development budget are inflated by $17.5M.

Capital Leverage: ACLT and SRI did not explore other funding sources outside of public funders for Keiro/Benu like FHLB grant or Amazon Housing Equity Fund or Evergreen Impact Fund. Their request to OH is for a little over 33% of the total residential costs.

Operating and Service Leverage: No services will be provided for this project**.** The project is currently modeling only $6705/unit in operating expenses. This is significantly less than we are seeing modeled and what current buildings are operating at. Expenses may be understated to balance the budget rather than depicting a feasible operating budget. This will cause the project to have leasing up and conversion issues necessitating an influx of additional capital funds into the project to convert to permanent financing.

Schedule: Given the need to work out the permitting and zoning issues at this site as well as get further along in their overall design process, being under construction by March 2025 does not seem like a feasible timeline. Therefore, this project does not meet the 2023 NOFA readiness priority.